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SUBJECT: Energy Minister Provides Update on Electricity Sector  
Commercialization

REF: A) 09 Kabul 2852  
B) 09 Kabul 3186

¶1. (SBU) Summary: Ambassador E. Anthony Wayne, Coordinating Director for Development and Economic Affairs, met with Acting Minister of Energy and Water (MEW) Ismail Khan on February 6 to discuss cooperation in Afghanistan's energy sector and to strategize on a path forward that would improve electricity service and reduce losses. Emphasizing the importance of the energy sector for Afghanistan's economic development, Ambassador Wayne said the USG stands ready to continue working with the Ministry, Da Afghanistan Breshna Sherkat (DABS), the recently founded national electricity corporation, and other international donors. Khan stressed the paucity of financial resources in the sector and its negative impact on access to electricity particularly in rural areas. Noting that communication between MEW and DABS was not as it should be, Khan opined that Afghanistan should move gradually towards greater private sector investment. Underscoring U.S. friendship for Afghanistan, Ambassador Wayne expressed USG readiness to work with MEW and DABS as they resolve their differences. End Summary.

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Afghanistan Energy Sector Priorities  
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¶2. (U) The meeting, attended by Deputy Minister Ghulam Faruq, Deputy Minister Ziaie, Director of Planning Zia Gul, USAID Mission Director Frej, and USAID staff, was cordial. In response to Ambassador Wayne's opening remarks, Acting Minister Khan stated that the USG and Afghanistan need to interact frequently at high levels on energy issues. Noting that the energy sector is important for both countries, he lamented that MEW only receives about half of the needed budget for energy investments and that additional investment is needed in generation to increase supply and in transmission to allow increased power imports. Rural electrification is an area that needs greater attention and major goals for the government include enhanced security and job creation, he stated.

¶3. (U) Khan said that energy sector progress has been slow, but the country had come a long way from just a few years ago when only a small proportion of the population was linked to the grid. To provide energy access to all will take a long time, he emphasized, stressing that years of war and free government services had also caused the population to expect low prices, which in turn affected the pace of commercial reform and privatization. The Afghan private sector also lacks the financial wherewithal to invest in the energy sector, and international firms are risk averse due to the security situation, he added.

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US Support to the Sector  
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¶4. (U) Noting that the energy sector was an important side-bar discussion in the recent London Conference, Ambassador Wayne stated that the USG plans to invest approximately \$750 million in energy projects in Afghanistan over the next five years. These projects

will significantly increase power generation, increase the efficiency of transmission and distribution, improve capacity to operate and maintain infrastructure, and provide increased access to electricity to Afghans across the country. Energy projects will lead to improvements in agriculture, health, education, economic development, and can contribute to improved revenue flow for the Government of Afghanistan, he emphasized.

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Donors on Same Page  
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15. (SBU) Ambassador Wayne observed that donors are of like-minds in terms of what they believe is needed to advance energy reform, stressing that the World Bank and Asian Development Bank (ADB) among other donors have consistently supported commercialization efforts to improve service and increase revenues. Over the next two years, USAID will provide approximately \$50 million in assistance to DABS to support the utility's management reforms, improved customer service, and revenue collection, he added.

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Transition to Kabul Conference  
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16. (U) Ambassador Wayne urged the Acting Minister to demonstrate progress in energy sector reform by the time of the Kabul Conference. This would encourage additional investments by donors and private sector alike and help the sector become commercially viable. Noting that it often takes time to establish new institutions like DABS properly, he reiterated USG support to help MEW in this process.

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Stresses between DABS and MEW  
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17. (SBU) Acting Minister Khan stated that although he and current DABS head Dr. Jalil Shams had been friends for four years, DABS was not following the agreement Dr. Shams had signed with MEW in September 2009. He said the agreement specifiet MEW should implement generation projects and that DABS should take over once the projects are complete. DABS should only focus on the distribution of electricity and operation and maintenance of the infrastructure. He said he had no problem whatsoever with DABS improving revenue collection and reducing losses but DABS should stick to the terms of the September agreement.

18. (SBU) Acting Minister Khan complained that DABS and ADB were not respecting these clear lines of authority and responsibility, delaying overall sector progress. He cited \$570 million in ADB investments that he did not want to go directly to DABS, but should be controlled by MEW. Deputy Minister Faruq added that there are redundancies between MEW and DABS, with the same functions present in both organizations. MEW Director of Planning Zia Gul noted as an example that ADB is creating a Project Management Unit (PMU) in DABS when a unit already exists in MEW. Khan also observed that DABS salaries were significantly higher than those in MEW and that engineers who earned \$200 per month in MEW now earned many multiples of this at DABS.

19. (SBU) (Comment: According to ADB Afghanistan Director Craig Stevenson, the bank has structured its investment portfolio to support DABS and to contribute to ongoing reform. The creation of a PMU in DABS is consistent with this approach and was intended to help ensure that funds were used for their targeted purpose. In addition, structuring higher salaries in DABS is consistent with ongoing commercialization efforts and with civil service reform. End Comment.) Ambassador Wayne commented that those employees with more responsibility could justifiably be paid higher salaries (within reason) and that public sector salaries in Afghanistan are too low.

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Role for Inter-Ministerial Commission on Energy (ICE)

¶10. (SBU) In describing investments necessary to transmit additional power from neighboring Tajikistan, Acting Minister Khan showed Ambassador Wayne a letter from the Government of Tajikistan reporting that good progress is being made on the transmission line that would allow power to be transmitted to the Afghan border and inquiring about transmission line progress on the Afghan side. Khan complained that MEW did not know the ADB procurement plan for this important activity, which USAID said should be a subject for deliberation by the Inter-Ministerial Commission on Energy (ICE). Khan complained that ICE was not being used effectively, and that it should report to MEW, not the Minister of Economy. Deputy Minister Faruq attributed this to the fact that DABS head Dr. Shams had been Minister of Economy and Deputy Minister of Energy. (Comment: The reporting relationship is the source of ongoing tension with MEW. ICE was created by Presidential decree and is chaired by the Minister of Economy on the grounds that the Ministry of Economy would provide more objective oversight. MEW is a member of ICE along with the Ministries of Mines and Finance. However, Khan views the ICE strategic planning and coordination functions as a better fit under his Ministry. End Comment.)

Next Steps

¶11. (U) Ambassador Wayne emphasized continued U.S. support to the Afghan energy sector, urging the MEW to focus more on electricity distribution to reduce losses. This would encourage other donors like the ADB to move forward with their commitments to the sector. Wayne offered that the Embassy would help bring DABS and MEW together on implementation of the September agreement, working with other donors. The Embassy will follow up to coordinate approaches with the ADB and to better ensure that ICE is meeting MEW needs, he added. Khan responded that there is no strong disagreement between MEW and DABS, that their goals are the same, but that they must work to understand each other better.

¶12. (SBU) USAID will organize donors to present a united front regarding support to DABS and energy sector reform, as it did in September 2009. USAID will also present a non-paper to MEW expressing USG commitment to continue supporting MEW electricity and water projects, while stressing that this support should be linked to measurable progress in sector reforms, including:

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- Independence between DABS and MEW as required by Afghan law.
- Hiring of DABS staff by DABS, not MEW.
- Regular DABS Board meetings.
- Support for DABS' efforts for customer enumeration, installation of meters, and introduction of new IT systems.

¶13. (SBU) Comment: Acting Minister Khan's description of the tensions between his ministry and DABS sounded in many respects like bureaucratic competition in other countries. His actions do not match his verbal support for commercial reform of the energy sector, however. We have also noted an uptick in the power struggle between reform-oriented and anti-reform Afghan officials, and there are some indications that opponents are winning. However, Minister of Finance Zakhilwal told Ambassador Wayne in London that he would not allow reform to be turned back and that the Finance Ministry is the largest shareholder on the DABS board. There is evidence that Khan and others in the government oppose efforts to reduce corruption and improve financial sustainability of the Afghan electricity sector. If they were to prevail, poor sector governance and corruption will cripple the sector. It is important for donors to act expeditiously to prevent progress on electricity sector reforms from backsliding. If DABS fails and again comes under the direct control of MEW, the electricity sector will almost certainly suffer deteriorating service and a steady decline of power supply. With strong supporters of reform like Finance Minister Zakhilwal engaged, however, there is a good chance of success. End Comment.

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